The first quarter of 2015 brought renewed confirmation of the upward trend in investment in office properties which has been apparent in recent years. The transaction volume totalled just under 3.88 bn €, which matches the prior-year figure almost exactly and exceeds the ten-year average by nearly half. One notable fact is that this result was achieved without any substantial contribution by portfolio sales: whereas in the first quarter of 2014 these accounted for 48 % (1.87 bn €) of all investment, in the first three months of this year they represented less than 8 % (under 300 m €). However, this picture is just temporary, with turnover in this field set to rise appreciably in the months ahead, thanks, for instance, to a number of sizeable package deals currently being made ready for conclusion. Where single deals are concerned, the first-quarter total of 3.58 bn € set a new record, 27 % up on the previous quarterly high achieved in 2007. This performance was fuelled by six transactions in the triple-digit million range which together produced around 28 % of aggregate turnover. The strength of the interest which investors are exhibiting in German office properties is underlined by the fact that only just over one third of all the capital deployed up to now has gone into core assets – in other words, buyers are now prepared to risk more than they were before.

The Big Six locations (Berlin, Cologne, Düsseldorf, Frankfurt, Hamburg, Munich) mainly posted higher levels of investment. Overall, their turnover rose by 30 % to slightly more than 3.03 bn €. Only Düsseldorf, which had started the previous year extremely well (618 m €), suffered a dramatic slump to around 100 m €, while Cologne registered a slight decline to 59 m €. All the other locations noted increases, some of which were considerable. Well ahead in first place came Munich (983 m €, +172 %) in front of Frankfurt (894 m €, +42 %). Never before had the Bavarian capital posted such a high volume of investment in office buildings. A substantial distance behind the top two came Berlin (562 m €, +91 %) and Hamburg (437 m €, +17 %).

Attractive B-locations have also contributed to the good turnover. Taking just single deals into account, cities with a population of over 250,000 together generated investment of 667 m €, which was more than twice the prior-year total. Cities with between 100,000 and 250,000 inhabitants accounted for 136 m €.
DEMAND IN ALL SIZE CLASSES

The way investment was spread across the different size classes was somewhat more even than it had been last year – another indication of broadly based demand driven by varied purchasing profiles. As was to be expected, the biggest slice of the total, 32%, was generated by deals upwards of 100 m €. But this category finished only just ahead of the 50-100 m € segment (just over 28%). Then, each with just under 17% of all investment, came the 25-50 m € and 10-25 m € brackets, both of which stepped up their significance slightly year-on-year in relative and absolute terms. The same applies to small assets of up to 10 m €, which accounted for a respectable 6.5% of the total.

BROAD SPREAD OF INVESTORS

Another pointer to the extensive scale of demand is the very broad distribution of aggregate investment between many different investor groupings. The only category to really stand out from the rest comprised special-purpose funds (27%), which anyway frequently conceal other types of buyers, such as pension funds, insurances or saving banks using such funds as a vehicle for their activities. Compared with last year, though, their share was lower. The only other category posting a double-digit proportion were pension funds (14%). All the other investor types finished with less than 10%. Notably, they included equity/real estate funds (9%), open-ended funds (8%), sovereign wealth funds (7%) and project developers and private investors (each 6%).

FURTHER FALL IN PRIME YIELDS

Against the background of not just good but in fact growing demand in combination with a limited supply of core products, prime yields have continued to decline in all the locations under review. As before, the most expensive city is Munich, with a net initial yield of 4.10 %, ahead of Hamburg with 4.30 %. The figures for the other cities are: Berlin and Frankfurt each 4.40 %, Düsseldorf 4.60 % and Cologne 4.70 %. So the average prime yield across the Big Six locations is 4.42 %, which is on a par with the historic low of mid-2007.

OUTLOOK

The strong start to the year and the ongoing positive prospects for office investments suggest that 2015 as a whole will produce a very good result. Factors backing this estimation are above all the historically favourable interest rate environment and the brightening economic development, while for many market players from abroad the higher value of the dollar makes investing in Germany even more attractive. At the same time, a whole series of sizeable sales are currently in preparation in both the single-deal and the portfolio fields. In view of all this, there are good reasons to expect turnover in this present year to surpass even last year’s outstanding result.